

REVISED SURREBUTTAL TESTIMONY AND EXHIBITS OF

DR. KYLE D. MAURER SR., P.E.

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2019-290-WS

**IN RE: APPLICATION OF BLUE GRANITE WATER COMPANY FOR
APPROVAL TO ADJUST RATE SCHEDULES AND INCREASE RATES**

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Kyle D. Maurer Sr. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the South Carolina Office of Regulatory Staff (“ORS”) in the Water Operations Department as Deputy Director.

Q. DID YOU FILE DIRECT TESTIMONY AND EXHIBITS RELATED TO THIS PROCEEDING?

A. Yes. I filed direct testimony and two (2) exhibits with the Public Service Commission of South Carolina (“Commission”) on January 23, 2020.

Q. WHAT IS THE PURPOSE OF YOUR REVISED SURREBUTTAL TESTIMONY?

A. The purpose of my revised surrebuttal testimony is to respond to rebuttal testimony filed by Blue Granite Water Company (“BGWC” or “Company”) witnesses Denton and Mendenhall on February 6, 2020. Specifically, I will focus on:

- Non-revenue water; and
- Costs Associated with the Greenville Office Upgrades.

Non-Revenue Water

Q. COMPANY WITNESS MENDENHALL STATES THAT THE COMPANY IS IMPLEMENTING AMERICAN WATER WORKS ASSOCIATION (“AWWA”) RECOMMENDED MEASURES AGAINST NON-REVENUE WATER.¹ THIS INCLUDED ITEMS SUCH AS REVIEWING DATA AND PREPARING AN AWWA WATER BALANCE. DID ORS REVIEW THE COMPANY’S WATER AUDIT DATA?

A. Yes. ORS requested that the Company submit completed water audits for each subdivision operated by the Company using the AWWA’s free Water Audit Software. The Company responded as follows:

The **AWWA software has not been utilized by the Company since its last rate case.** In lieu of providing the software results, BGW is submitting its water accountability report titled “Monthly Water Acct Form – SC” for all water systems, which **provides comparable information.** The first tab of the report (System List) has active links to individual tabs for each system/subdivision.² [emphasis added]

Within the Water Accountability Report, the workbook for each subdivision contains data entry fields related to AWWA’s water balance, such as water supplied (e.g., water pumped or purchased), revenue water (e.g., metered billing), and non-revenue water, which includes individual components of non-revenue water such as unbilled authorized consumption (e.g., flushing, firefighting, etc.), apparent losses (e.g., meter errors, data handling errors, or unauthorized consumption), and real losses (e.g., leaks) for each month. The Company’s data for water supplied and revenue water is well documented, which in turn is used to calculate overall non-revenue water. However, the majority of data fields

¹ Rebuttal Testimony of Bryce Mendenhall, Page 4, lines 25-26

² Response to First Request for Production of Books, Records, and Other Information 1.89

1 for individual components of non-revenue water are empty (i.e., no documented value). In
2 general, the documented components of non-revenue water consisted of relatively few data
3 entries for main/hydrant flushing and leak events. The water audit data provided by the
4 Company fails to provide insight into the individual components of non-revenue water
5 within a given subdivision that are contributing to non-revenue water.

6 The Water Accountability Report was also the basis for the calculations made by
7 the Company to determine the amount of non-revenue water for subdivisions served by a
8 third-party water provider and the cost associated with non-revenue water greater than 10%
9 for a given subdivision, which was updated through the twelve (12) month period ending
10 November 30, 2019.³ During the twelve (12) months ending November 30, 2019, the
11 summation of flushing and leak events documented by the Company in the Water
12 Accountability Report for all subdivisions served by a third-party water provider were
13 926,385 gallons and 701,530 gallons, respectively. A listing of the flushing and leak events
14 for each subdivision as documented by the Company for the twelve (12) months ending
15 November 30, 2019 is found in Surrebuttal Exhibit KDM-1.

16 To put these figures in perspective, documented flushing events across all
17 subdivisions served by a third-party water provider accounted for less than 1% of the
18 combined total water input and combined total non-revenue water in these subdivisions
19 over the twelve (12) month period ending November 30, 2019. Similarly, documented leak
20 events across all subdivisions served by a third-party water provider accounted for less than
21 1% of the combined total water input and combined total non-revenue water in these
22 subdivisions over that same twelve (12) month period. The cause of the remaining

³ Response to Energy Operations Request ("EOR") #27, Question 1

combined total non-revenue water is not explained by the Company's water audit data. It is difficult to pinpoint the major causes of non-revenue water or make informed recommendations for water loss control and infrastructure in a given subdivision using the Company's water audit data.

Q. COMPANY WITNESS MENDENHALL DISAGREED WITH YOUR STATEMENT THAT "THE COMPANY EXPERIENCED A LARGE INCREASE TO THE NUMBER OF SUBDIVISIONS WITH MORE THAN 10% NON-REVENUE WATER SINCE ITS LAST RATE CASE.⁴ HOW DO YOU RESPOND?

A. Company witness Mendenhall's disagreement does not change the fact that more than half of the Company's subdivisions that purchase water from a third-party provider realized more than 10% non-revenue water. It should be noted that even if the subdivisions over which Mr. Mendenhall takes exception are removed from the comparison, the number of subdivisions with more than 10% non-revenue water still triples from Docket No. 2017-292-WS to this proceeding.

Q. COMPANY WITNESS MENDENHALL NOTES THAT THERE ARE SUBDIVISIONS THAT ARE PARTIALLY SERVED BY COMPANY WELLS. HOW HAS ORS TAKEN THIS INTO ACCOUNT IN ITS CALCULATIONS AND RECOMMENDATIONS?

A. ORS is proposing an allocation of non-revenue water costs based on the percentage of total water supplied from the third-party provider for the five (5) subdivisions noted by Company witness Mendenhall that were partially supplied by Company wells.⁵ ORS recommends an adjustment of \$251,311 to reduce the Purchased Water expenses for

⁴ Rebuttal Testimony of Bryce Mendenhall, Page 5, lines 10-11

⁵ Stonegate, Leon Bolt, Washington Heights, Charleswood, Country Oaks

Service Territories 1 and 2 to limit the customers responsibility for non-revenue water expense to 10% in each subdivision.

Q. COMPANY WITNESS MENDENHALL STATES THAT LEAK DETECTION STUDIES ALONE WOULD COST MORE THAN THE ANNUAL COST OF NON-REVENUE WATER ABOVE ORS'S THRESHOLD.⁶ DO YOU AGREE WITH HIS STATEMENT?

A. No. For each individual subdivision, the cost of a leak detection study does not exceed the cost of non-revenue water greater than 10% based on the cost data provided by Company witness Mendenhall.⁷ Additionally, the costs associated with excessive non-revenue water would be annual costs. The Company did not state whether the leak detection studies would be a one-time or recurring cost, and if the studies would be recurring, the Company does not state the frequency of such studies. Given the lack of comprehensive water audit data, the Company does not know whether leaks are a significant contributor to non-revenue water.

Q. COMPANY WITNESS MENDENHALL STATES THAT A MORE REASONABLE APPROACH WOULD BE TO SET GOALS FOR EACH SYSTEM.⁸ HOW DO YOU RESPOND?

A. The suggestion from Company witness Mendenhall assumes that the Company has comprehensive water audit data for each subdivision to guide such system-specific goals. As the Company has not presented such data in response to ORS requests, ORS contends that a single numeric threshold for all subdivisions, as implemented in the Company's last

⁶ Rebuttal Testimony of Bryce Mendenhall, Page 7, lines 14-15

⁷ Rebuttal Testimony of Bryce Mendenhall, Pages 7-8, Table 1

⁸ Rebuttal Testimony of Bryce Mendenhall, Page 8, lines 1-4

rate case, remains appropriate. Under the circumstances of this case, ORS's threshold is reasonable in that it realizes an acceptable level of non-revenue water may occur, while simultaneously protecting the Company's customers from excessive non-revenue water.

Q. WHY SHOULD A NUMERIC THRESHOLD FOR NON-REVENUE WATER BE ACCEPTED BY THE COMMISSION?

A. Absent comprehensive water audit data from the Company or a directive from this Commission on how to adjust for excessive non-revenue water, ORS contends that a numeric threshold for non-revenue water is the appropriate and reasonable method to ensure customers are protected against excessive non-revenue water while realizing an acceptable level of non-revenue water may occur. The first step towards the Company mitigating the impacts of non-revenue water should be enhanced efforts to collect, document, and analyze its water audit data. The Company does not appear to have taken this first step yet.

Q. WHAT NUMERIC THRESHOLD IS THE COMPANY PROPOSING IN THIS PROCEEDING?

A. The Company has proposed the use of a 20% threshold for non-revenue water if the Commission deems a threshold limit appropriate.⁹ Table 1 below provides a comparison of the total non-revenue water adjustments using the ORS's recommended 10% threshold and the Company's recommended 20% threshold, assuming the only change to the analysis is the non-revenue water threshold.

⁹ Rebuttal Testimony of Bryce Mendenhall, Page 9, lines 13-14

Table 1: Non-Revenue Water Adjustment Comparison

Adjustment	10%	20%
Purchase Expense	\$251,311	\$40,741
Purchase Deferral	\$16,976 ¹⁰	\$0 ¹¹
TOTAL	\$268,287	\$40,741

Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED 20% NON-REVENUE WATER THRESHOLD?

A. No. While the Company did not object to the 10% non-revenue water threshold recommended by ORS in Docket No. 2017-292-WS, the Company contests it in this proceeding. The non-revenue water adjustment in this case has a larger impact on expenses than the non-revenue water adjustment in Docket 2017-292-WS. However, because 10% is both appropriate and reasonable, the monetary size of the adjustment should not change the non-revenue water threshold used by ORS or the Company's position on the previously utilized non-revenue water threshold.

Q. SHOULD THE COMMISSION AUTHORIZE DEFERRAL TREATMENT OF THIRD-PARTY WATER AUDIT COSTS, AND THE ACCRUAL OF CARRYING COST AT THE COMPANY'S AUTHORIZED COST OF DEBT, TO FACILITATE RECOVERY IN THE NEXT RATE CASE?

A. No. ORS agrees the Company and their third-party water auditor should work to reduce non-revenue water. Moving forward, the Company should increase its efforts to collect, document, and analyze water audit data; data that will help pinpoint the major causes of non-revenue water in each of the Company's subdivisions and provide informed

¹⁰ This calculation is based upon a \$50,929 impact to the deferral balances that is amortized over there (3) years

¹¹ ORS used an aggregate non-revenue water value of 15.8% for the purchased water deferral adjustment

guidance for specific remedies. Third-party water audit costs are expenses that could be evaluated for recovery in the Company's next rate case. There should be no deferral treatment or carrying costs.

Greenville Office Upgrades

Q. HAS ORS'S POSITION REGARDING DISALLOWANCE OF COSTS ASSOCIATED WITH THE MOVE TO GREENVILLE CHANGED?

A. No. Company witness Denton states that attracting talent in Columbia has been difficult due to brand issues in the market. Specifically, he stated that:

The Company considered its **brand impact** in each market and used CBRE data to compare labor statistics. Attracting talent in the Columbia market has been extremely difficult due to the **legacy brand issues** in the market.¹²
[emphasis added]

In Docket No. 2018-365-WS, the Company provided a notice that was sent to its customers regarding the Company's rebranding efforts. A copy of this notice is attached as Surrebuttal Exhibit KDM-2. An excerpt from this notice to customers reads:

It's an exciting time at our company, and as we look forward, we are **refreshing our brand at no cost to our customers** to reflect our legacy and to showcase our new direction. [emphasis added]

As stated above, Company witness Denton reasons that legacy brand issues diminished the Company's ability to acquire talented workers in the Columbia market. The Company asserts its rebranding and relocation were aimed to alleviate the Company's talent acquisition issues. The Company represented to its customers that the refreshing of the Company's brand would be at no cost to them and is now contradicting that representation by attempting to pass on to customers relocation and office upgrade costs that were part of its rebranding.

¹² Rebuttal Testimony of Donald Denton, Page 6, lines 4-7

The long-term issues that caused the Company's brand to hinder talent acquisition in the Columbia area is not the fault of customers. Nor is the former location of the Company's headquarters in Columbia the cause of any talent acquisition problems. Such problems were caused by the Company, not its location. Customers should not pay for the offenses of past Company management and all rebranding costs, including those associated with the relocation and Greenville office upgrades, should be the burden of the Company's shareholders as was stated in their notice to customers.

Q. COMPANY WITNESS DENTON DESCRIBES THE OFFICES AS "UP TO DATE AND FUNCTIONAL, BUT THEY ARE NOT LUXURIOUS OR GOLD-PLATED."¹³ HOW DO YOU RESPOND?

A. Company witness Denton's use of the term "functional" to describe the Company's Greenville office implies the space is simply practical. ORS would respectfully disagree. The Company spent nearly \$50,000 per employee on the office upgrades. This cost per employee does not consider the recurring lease expenses that have been included for recovery in this rate proceeding. As outlined in my direct testimony, the Company did not provide reasonable justification to merit the large one-time expense of the upgrades. ORS also contends that the Company failed to make reasonable efforts to minimize the costs.

Q. WILL YOU UPDATE YOUR TESTIMONY BASED ON INFORMATION THAT BECOMES AVAILABLE?

A. Yes. ORS fully reserves the right to revise its recommendations via supplemental testimony should new information not previously provided by the Company, or other sources, become available.

¹³ Rebuttal Testimony of Donald Denton, Page 4, lines 22-23

1 **Q. DOES THIS CONCLUDE YOUR REVISED SURREBUTTAL TESTIMONY?**

2 **A.** Yes, it does.